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ANNUAL REPORT 1968



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ANNUAL REPORT 1968

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	1968	1967
Ore milled — tons	1,277,000	1,071,000
Ore reserve — tons	12,600,000	11,900,000
Nickel sales — pounds	25,133,000	23,553,000
Fertilizer sales — tons	340,000	325,000
Revenue from sales	\$56,754,000	\$49,375,000
Operating profit	\$14,076,000	\$11,832,000
Net earnings	\$ 6,148,000	\$ 5,392,000
Shares outstanding	11,363,000	11,363,000
Earnings per share	54¢	47¢
Dividends per share	25¢	20¢
Working capital	\$12,352,000	\$10,468,000

ANNUAL MEETING

2:30 P.M., Monday, April 28, 1969 The Royal York Hotel, (Manitoba Room) Toronto, Ontario

SHERRITT GORDON MINES LIMITED

Directors

W. E. P. DEROCHE, Chairman of the Board,

Partner, Blake, Cassels & Graydon

EDWARD L. DONEGAN, Solicitor, Blake, Cassels & Graydon

JOHN DRYBROUGH, Chairman of the Board,

Newmont Mining Corporation of Canada Limited

ALAN E. GALLIE, Vice-President, Marketing

V. N. Mackiw, Vice-President, Technology and Corporate Development

PLATO MALOZEMOFF, President and Chairman of the Board,

Newmont Mining Corporation

DAVID D. THOMAS, President and Chief Executive Officer

J. E. THOMPSON, Vice-President, Newmont Mining Corporation
MERVYN A. UPHAM, Vice-President, Newmont Mining Corporation

Officers

W. E. P. DEROCHE, Chairman of the Board

DAVID D. THOMAS, President and Chief Executive Officer

PETER A. CAIN, Vice-President, Mining
ALAN E. GALLIE, Vice-President, Marketing
R. G. MacKay, Vice-President and Secretary

V. N. Mackiw, Vice-President, Technology and Corporate Development

WM. H. YOUNG, Vice-President, Metals & Chemicals

BRUCE I. WATSON. Treasurer

Kenneth J. Harvey, Controller — Finance
I. S. J. Huberdeau, Controller — Operations

Auditors

DELOITTE, PLENDER, HASKINS & SELLS, TORONTO

Solicitors

BLAKE, CASSELS & GRAYDON, TORONTO

Transfer Agents

CANADA PERMANENT TRUST COMPANY, CANADA MORGAN GUARANTY TRUST COMPANY OF NEW YORK

Bankers

CANADIAN IMPERIAL BANK OF COMMERCE, TORONTO MORGAN GUARANTY TRUST COMPANY OF NEW YORK

REPORT OF THE DIRECTORS

To the Shareholders, Sherritt Gordon Mines Limited.

Your Directors take pleasure in submitting to you this report of the Company's operations for the year 1968 including the audited financial statements.

A brief review of the highlights for the year reveals that the year 1968 was one of the most encouraging years in the Company's history.

Sales were at a record level and net earnings of 54¢ per share were higher than for any year since 1955. Metal production at both the mine and refinery showed a marked increase over the previous year. The tonnage of ore reserves at Lynn Lake once again showed a moderate increase.

Partially offsetting the foregoing was the deterioration of the Company's fertilizer markets in the latter half of the year. During this period shipments in the domestic market were at a very low level, and there was a severe reduction in off-shore prices.

The Company arranged major loan financing for the Fox Mine. Construction at the Fox Mine proceeded on schedule and drilling results from the initial underground development are encouraging.

The Company licensed its refining process for the treatment of laterite ores in both the Philippines and New Caledonia. At Fort Saskatchewan the construction of the demonstration plant for this process was nearing completion at the year end.

SALES

	1968	1967
Nickelpounds	25,132,756	23,553,277
Copperpounds	11,814,550	10,556,159
Cobaltpounds	985,046	872,522
Fertilizers tons	340,017	324,512

Once again the market place would have absorbed more primary nickel than we had available for sale. Sales of rolling mill products increased sharply and reached a new record level. Because of the increased sale of rolling mill products, and because some primary nickel is committed for sale under the terms of several of our refinery feed purchase contracts, it is becoming increasingly difficult to satisfy the requirements of our primary nickel customers. We increased the price of our standard nickel powder and briquettes from 98¢ to \$1.07 U.S. per pound on December 27 to maintain our price structure in the industry. Earlier in the year we lowered our cobalt powder price from \$2.03 to \$1.85 U.S. per pound to become more competitive with the cobalt being released from the United States Government stockpile.

Despite the grain surpluses and the excess fertilizer production capacity in western Canada, the Company's fertilizer sales in western Canada were maintained at a satisfactory level during the first half of the year; however, the fall market was further disrupted by wet and cold weather so that the sales in the latter half of the year in the domestic market were very disappointing. Overall domestic sales volume was lower than the previous year and prices declined. Volume of sales in the export market was satisfactory, but prices were substantially reduced. Excess production of ammonium sulphate, particularly by-product production in the

United States, drastically reduced the off-shore sales price of this product in the latter part of the year. Although no sales at these distress prices were made in the current year, large tonnages have been sold forward for delivery in 1969.

PRODUCTION

	1968	1967
Nickelpounds	25,678,545	22,224,172
Custom nickelpounds	3,919,847	2,855,353
Total nickelpounds	29,598,392	25,079,525
Copperpounds	12,336,368	10,716,158
Cobaltpounds	893,609	764,073
Fertilizers tons	344,814	331,209

The refinery operated at close to capacity throughout the year. The increases in metal production were attributable to the improved tonnage mined at Lynn Lake and the increased supply of other feed materials.

EARNINGS AND DIVIDENDS

	1968	1967
Revenue from sales	\$56,754,000	\$49,375,000
Operating profit	14,076,000	11,832,000
Net earnings	6,148,000	5,392,000
Earnings per share	54¢	47¢
Dividends per share	25¢	20¢

The improvement in operating profit was due mainly to the higher price realized for nickel, increased metal production from both the mine and the refinery, and the increase in production and sale of rolling mill products. Operating profit was adversely affected by lower fertilizer prices and increased production costs of ammonium phosphates.

In the calculation of net earnings for the year, income taxes payable were nearly \$1,500,000 higher than the previous year. The Company continued to follow the accounting practice of recording in its accounts only the income tax actually payable on the current year's operations. We have, however, expanded the note on Income Taxes in the financial statements so that the facts will be abundantly clear to every shareholder.

LYNN LAKE OPERATIONS

A total of 1,276,517 tons of ore was mined and milled in 1968 as compared with 1,071,490 tons in 1967. The open pit operated throughout the year, contributing 340,000 tons to the mill feed. The mill treated an average of 3,488 tons per calendar day as compared with 2,936 tons per calendar day for the year 1967. Although there was a slight decrease in the grade of the mill feed, production of nickel and copper in concentrate was increased over the previous year by approximately 10% and 14% respectively.

A high level of development work was maintained due partially to a low labour turnover. A comparative summary of development follows:

	1968	1967
Drifting and crosscutting	16,558'	16,837'
Raising	7,514'	9,921'
Underground diamond drilling	128,756′	101,380'
Surface diamond drilling (Lynn)	1,005'	8,549'

Exploration and ore outline drilling in the N zone above the 3,000' level proved up additional ore which is being prepared for mining. Exploratory drilling of selected areas below the 3,000' level has not yet located any orebodies in this area although low-grade mineralization has been intersected.

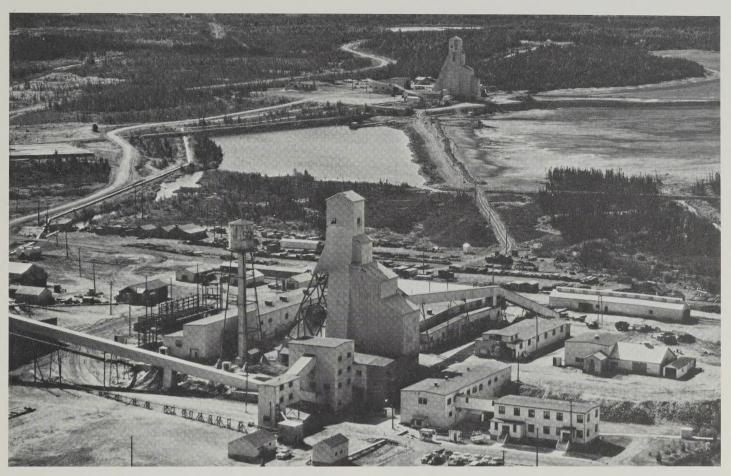
The Manitoba Government completed construction of 60 miles of highway out of Lynn Lake, reaching Leaf Rapids which is the crossing point of the Churchill River.

The Laurie River power plants supplied 64,344,000 kwh during the year. Precipitation was light and the water levels above the storage dams were considerably below normal.

LYNN LAKE ORE RESERVES

Date of calculation	Tons	% Nickel	% Copper
December 31, 1967	11,900,000	0.83	0.46
December 31, 1968	12,600,000	0.81	0.43

Most of the new ore added to the reserves was in the N zone above the 3,000' level.



LYNN LAKE -- "A" PLANT IN FOREGROUND, FARLEY SHAFT IN BACKGROUND

Although there has been a moderate decrease in the grade of the reserves, it is interesting to note that after mining almost 5,000,000 tons during the past four years we have maintained the tonnage of ore reserves at the same level as at the end of 1964 (after allowance for dilution not included in the earlier published figure). The increases in nickel prices during the past two years have made it possible for us to continue to include in the reserves some lower grade material which otherwise would have become uneconomic.

FOX MINE

During the first half of the year an agreement was concluded with Mitsubishi Metal Mining Co., Ltd. and Mitsubishi Shoji Kaisha, Ltd. of Japan for the sale of the total output of copper concentrate from the Fox Mine for the first ten years of production. Under terms of the agreement Mitsubishi is to provide advances up to \$16,380,000 U.S. to help finance the Fox

Mine construction and development program. The advances are repayable by deductions from the proceeds of the copper concentrate sold to Mitsubishi during the first five years of production and are secured by the Company's 71/4% First Mortgage Bonds mortgaging the Fox Mine.

An agreement for the sale of zinc concentrate for the first five years of production was made with Hudson Bay Mining and Smelting Co. Limited.

The production shaft was completed to a depth of 2,340 feet in June and lateral development work and underground diamond drilling were started. By year end crosscuts on the 1,200', 1,600' and 2,000' levels had been driven through the orebody, and footwall drifts were started to the east on the 1,600' and 2,000' levels. Diamond drill intersections on these two levels partially defined the orebody. The western section of the orebody was located but not defined.

Development work was carried out using the sinking headframe while the permanent headframe was being constructed around it. The erection of a hoist house and compressor building, steam plant building and water storage tank was completed, and the setting up of the boilers, compressors and hoist was nearly completed by the end of the year. Equipment for the concentrator was ordered and construction will start early in 1969 to meet the anticipated start-up date of June, 1970.



FOX MINE HEADFRAME

The transmission line from Laurie No. 2 generating station to the Fox Mine was completed. Construction of the Thompson-Rat River section of the power line from Thompson to our Laurie River power station was started by Manitoba Hydro. The tote road from Lynn Lake to the Fox Mine was upgraded and the spur road was built to McVeigh Siding on the Canadian National Railway line. The Manitoba Government is paying one third of the cost of the road from Lynn Lake to the Fox Mine.

FOX MINE ORE RESERVES

Insufficient work had been completed by the end of the year to justify a change in the previously calculated ore reserves of:

Tons	% Copper	% Zinc
12,269,000	1.74	2.35

On the basis of incomplete underground drilling to date, the ore between the 1,600' and 2,000' levels has been recalculated at 2,810,000 tons averaging 2.00% copper and 1.74% zinc. This compares with the earlier estimate, based on surface drill holes, for the same block of 2,990,000 tons averaging 1.68% copper and 1.47% zinc. It is anticipated that additional ore with lower copper and higher zinc content will be developed at the west end of the ore zone.

The calculated ore reserves are based on the original drilling from surface. Since this surface drilling did not intersect the ore zone below 2,000 feet, the current mine development program was designed to ready the mine for production from above this level by mid-1970. In order to check the vertical continuity of the ore zone below 2,000 feet, three exploratory holes were drilled from the 2,000' level. All three of these exploratory holes intersected ore, indicating that the ore zone extends to a depth of at least 2,500 feet. As the amount of development required to bring the mine into production on schedule is extensive, and as ore will not be mined from below the 2,000' level during the first years of production, we do not plan, at the present time, to do the detailed drilling required to outline additional ore reserves below 2,000 feet.

OUTSIDE EXPLORATION

Early in the year our airborne geophysical unit, which is installed in our twin-engine Beechcraft airplane, was sent out to be improved and up-dated. Both airborne and ground geophysical surveys were carried out during the year in northern Manitoba and Saskatchewan. A total of 25,262 feet of diamond drilling was done on the more favorable anomalies, and although quite a number of sulphide deposits were found, nothing of economic interest was located.

The Company entered into a joint venture with Western Mining Corporation Limited of

Australia for the exploration and development of nickel laterites in an area located in Western Australia. Participation is 51% Western, which is managing the venture, and 49% Sherritt. We are providing the first \$250,000 Aust. (\$300,000 Can.) after which any further expenditures are to be shared in proportion to the 51%-49% interests. Sherritt is also providing its metallurgical processes and knowhow for the venture which is limited to laterite nickel ores.

By the end of the year some 300 holes, mostly on a widely spaced grid pattern, had been drilled over the exploration area which covers approximately 70 square miles. A few holes intersected ore-grade material but on the whole results were somewhat disappointing. The laterite appears to be erratic in occurrence and complex in composition, differing from the normal nickel laterite deposits in most other parts of the world. Hopes of establishing any single orebody of more or less consistent grade and size large enough to support a treatment plant have almost been eliminated. Further drilling will be done to see if there is any combination of mineralized areas extensive enough to be of possible economic interest.

FORT SASKATCHEWAN OPERATIONS

With an adequate supply of feed material available the metals plant operated at close to capacity and total nickel production increased by 18% over the previous year. Although the metals plant was not shut down for preventive maintenance, some production was lost during the first half of the year because of difficulties in the thickening and filtering operations. We believe that this operating problem is now under control.

In the third quarter we entered into a new agreement with Western Mining Corporation Limited of Australia to treat an increased volume of nickel concentrates which they expect to produce from their Kambalda mines. The increased tonnages under this agreement should continue until Western's new nickel refinery is brought into production in 1970.

Early in the year we were advised by Société Le Nickel that our nickel matte purchase contract would not be renewed at the end of 1968. Force majeure shortages under this contract should be delivered over the next two years but receipts of this high-grade feed material will be much lower than in the past five years. We are checking every possibility of obtaining and treating other high-grade feed material. Meanwhile, we have installed additional air compressor capacity which will allow us to process an increased tonnage of concentrates.

Production of nickel strip and coinage blanks from the rolling mill increased sharply over the previous year. We had a large number of orders for nickel strip, cobalt strip and nickel blanks, and for finished nickel coins from The Sherritt Mint. For the first time we were able to bring the blanking section of the plant close to its rated annual capacity of 3,000,000 pounds. We supplied the Royal Canadian Mint with pure nickel strip for coinage as well as nickel blanks for the new 5¢, 10¢, 25¢ and 50¢ pieces. We shipped nickel blanks to The Netherlands, Brazil and South Africa. In the first half of the year The Sherritt Mint produced its first small order of finished coins, the 1 livre coin for Lebanon. This was followed by production on a large order of finished coins for Syria, and by the end of the year we had shipped over 15,000,000 pieces to that country. Production and efficiency in these facilities showed a steady improvement during the year in line with market demand, and we anticipate a further increase in production and sales in 1969.

The fertilizer plants operated continuously except for the planned annual maintenance shutdown. As a result of our experience in operating the high-pressure reform section of the ammonia plant, it has been decided, for

preventive maintenance purposes, to shut down the ammonia plant on a semi-annual rather than an annual basis. At the time of this year's shutdown the ammonia plant start-up was delayed for an extra seven days because of cracking in the outlet cone from the primary reform furnace. Apart from this trouble the fertilizer plants operated reasonably well and total production was 4% higher than in the previous year. To increase our share of the domestic and United States markets we are improving the quality of our ammonium sulphate by the installation of an additional crystallizer early in 1969. The very poor fall market for fertilizers in western Canada placed a severe strain on our storage facilities.



FERTILIZER TEST PLOT EQUIPMENT

RESEARCH AND DEVELOPMENT

The major efforts during the year were concerned with metallurgical processes for the recovery of nickel and cobalt from laterite ores. The demonstration plant, for treatment of 25 tons per day of laterite ore, was designed and constructed at Fort Saskatchewan during the latter half of the year. Further laboratory work and evaluations were made during the course of the year and detailed operating procedures for the operation of the demonstration plant were developed. Laterite samples from various parts of the world were tested in the laboratory and were found to be amenable to treatment by our processes. Construction of the demonstration plant was completed early in 1969 at an overall capital cost of approximately

\$2,100,000 and operations began in February, 1969.

We conducted laboratory and development test work, and supplied metallurgical knowhow in support of our process licenses to Western Mining Corporation Limited of Australia and Union Corporation Limited of South Africa.

A process was developed for the treatment of an intermediate product produced from complex nickel and cobalt scrap and is now in use at Fort Saskatchewan. Further studies are being conducted to see if increased quantities of this material can be treated to offset partially the loss of nickel matte as refinery feed.

Research continued on the development of dispersion-strengthened, nickel-base alloys for high temperature applications. This work was financially supported by the Canadian Defence Research Board and United States Air Force contracts.

The agronomy department set up a number of fertilizer field plots throughout western Canada testing the responses of different crops under varying climatic and soil conditions. The results were most useful, particularly with regard to new fertilizer formulations, and will greatly assist our fertilizer marketing staff in making recommendations to Canadian farmers.

Technical assistance was provided throughout the year to the operating divisions and continued to improve the processes and product quality.

CAPITAL EXPENDITURES

Capital expenditures for the year amounted to \$9,831,000. A breakdown is given in the Statement of Source and Use of Funds in the financial statement section. The amount of expenditures increased sharply over the previous year due to the construction and development at the Fox Mine, the construction of the laterite demonstration plant at Fort Saskatchewan and fertilizer warehouses in western



LATERITE DEMONSTRATION PLANT AT FORT SASKATCHEWAN

Canada. It is anticipated that there will be a further increase in 1969 because of expenditures at the Fox Mine.

PERSONNEL

At the year end the Company had a total of 1,776 employees as compared with 1,652 at the end of 1967. The distribution, with comparable figures for the previous year, is as follows:

	1968	1967
Lynn Lake	706	696
Fort Saskatchewan		
Metal and Chemical	854	783
Rolling mill and coinage		
plant	72	53
Research and Development	82	63
Executive office — Toronto	28	25
Marketing Division		
Metals — Toronto	14	15
Fertilizers — Edmonton	20	17

Our overseas interests, including the laterite demonstration plant, and the higher operating level in the rolling mill and mint, accounted for the increase in the number of employees at Fort Saskatchewan.

At Lynn Lake, under the terms of a threeyear contract with Local 5757, United Steelworkers of America, which runs to March 1, 1970, a general wage increase of 4.6% became effective on March 1, 1968.

At Fort Saskatchewan, under the terms of a two-year contract with Local 530, International Chemical Workers' Union, which runs to May 1, 1969, a general wage increase of 6.5% became effective on May 1, 1968.

OVERSEAS INTERESTS

As reported earlier an agreement was made with Western Mining Corporation Limited of Australia covering the use of our ammonia leach process in a nickel refinery being constructed at Kwinana, 20 miles south of Perth, Western Australia, for the treatment of nickel sulphide concentrates produced from Western's mines near Kambalda. During the early part of the year, in conjunction with the contractors selected by Western to construct the refinery, we established the basic design specifications. Construction of the refinery began in July and had made good progress by the end of the year. We will continue to provide technical assistance during the construction period, train Western's operating personnel at Fort Saskatchewan, provide start-up supervision, and supply technical assistance and know-how on a continuing basis after the refinery comes into operation. It is anticipated that the refinery will be operating in 1970 with an initial annual capacity of 33,600,000 pounds of pure nickel metal in the form of powder and briquettes. The refinery will also produce ammonium sulphate as a by-product and will recover copper and cobalt as separate sulphide precipitates.

An agreement for a paid-up license was made early in the year with Union Corporation Limited for the use of our metallurgical process for the recovery of nickel in a platinum refinery now being built in South Africa. During the year we provided technical assistance on the design of the nickel recovery section of the refinery. The refinery is now in an advanced

stage of construction and should be operating in the latter half of 1969.

For a number of years we have been associated with Marinduque Mining & Industrial Corporation of the Philippines in connection with Philippine laterite nickel ores. In April of this year Marinduque's proposal to build a plant to produce 50,000,000 pounds of nickel metal per year on Nonoc Island, in the Surigao Mineral Reservation, was accepted by the Philippine Government. We have agreed to license our laterite process and know-how to Marinduque and to supply technical personnel and advice on the management and operation of the plant over a 25-year period. After the Marinduque proposal had been accepted by the Philippine Government, we promptly started construction at Fort Saskatchewan of a demonstration plant for our laterite refining process. This plant will establish design specifications for commercial plants and will be used to train operating personnel. In October Marinduque mined and shipped 10,000 tons of ore which is now being treated in the demonstration plant. In anticipation of a possible increase in the size of the proposed commercial plant, Marinduque is conducting an extensive exploration program to confirm and extend the existing ore reserves. We anticipate that the demonstration plant run on Nonoc ore should be completed by the end of 1969 so that the decision to proceed with the commercial plant in the Philippines could be made early in 1970.



10,000 TON SAMPLE PIT NICKEL LATERITE — NONOC ISLAND, PHILIPPINES

In July we concluded our second agreement on laterite ores, licensing our metallurgi-

cal processes for the production of pure nickel and cobalt to Société Le Nickel of France for use in New Caledonia. The license is exclusive to Le Nickel in New Caledonia, but provides that the process will be made available to others on similar terms. It is expected that a bulk sample of Le Nickel's New Caledonian laterite ore will be put through the demonstration plant at Fort Saskatchewan immediately following the run on Philippine ore. Le Nickel has not made any announcement as yet regarding a commercial plant in New Caledonia to use the process.

After the end of the year we announced our participation in a new Indonesian company, P. T. Pacific Nikkel Indonesia. Under a Contract of Work, recently entered into with the Indonesian Government, the new company will explore and develop laterite nickel deposits in the Waigeo and Cyclop areas of Irian Barat (formerly Dutch New Guinea). P. T. Pacific Nikkel Indonesia has been incorporated by United States Steel Corporation (43%), Koninklijke Nederlandsche Hoogovens en Staalfabrieken N.V. (22%), Newmont Mining Corporation (15%), Wm H. Müller & Co. N.V. (10%) and Sherritt Gordon Mines Limited (10%). Pacific Nikkel is starting a program of 2 to 3 years to continue and expand the exploration work done a number of years ago by U.S. Steel and Dutch interests. This original work indicated laterite nickel deposits of good grade and probably of sufficient tonnage to warrant a nickel-producing plant of some 50,000,000 pounds of nickel metal per year. plant would cost as much as \$100,000,000 U.S. and would take an additional 3 to 4 years to build. During the course of the exploration work a bulk sample of ore will be shipped to Fort Saskatchewan for treatment in the laterite demonstration plant. The decision on the construction of a commercial plant will depend on the results of the exploration work and demonstration plant run, and on the prevailing economic conditions. A commercial nickel refinery built by Pacific Nikkel in Irian

Barat would employ Sherritt's laterite process to produce pure nickel powder and briquettes. Cobalt, together with part of the nickel, would be recovered as a mixed sulphide and would be treated under contract at Sherritt's Fort Saskatchewan refinery.

MICHIPICOTEN IRON MINES LIMITED

As previously reported, The Algoma Steel Corporation, Limited leased the Ruth and Lucy iron properties in the Michipicoten area of Ontario from Michipicoten Iron Mines Limited, a 67% owned subsidiary. Late in 1967 Algoma began production and Michipicoten is now receiving an annual minimum production royalty. We anticipate that our share of this royalty will average approximately \$90,000 per year over the 10-year period 1968 to 1977 inclusive.

OUTLOOK FOR 1969

The outlook for 1969 is somewhat mixed. We expect the demand for nickel to remain strong throughout the year. - It is doubtful that the anticipated relatively minor increases in world production will offset the continuing increase in demand. Our own supplies of primary nickel will be very limited. An increased portion of our 1969 production will be on a toll basis, and more of our primary nickel will be used in our rolling mill to meet the continued strong market demand for nickel coinage and nickel strip. We have also recently been advised by Société Le Nickel of another interruption of production in New Caledonia which will further delay receipts of nickel matte. Our cobalt production will be at a somewhat reduced rate because of the lower cobalt content of our refinery feed.

The outlook for the fertilizer side of our business is very disturbing. Grain surpluses, combined with poor weather conditions, indicate a reduced market for fertilizers in western Canada. At the same time the phosphate production capacity in this area, which was

already in an oversupply position, will be further augmented by the large new Imperial Oil Limited fertilizer complex being brought on stream this year at Redwater, Alberta, ten miles from Fort Saskatchewan. The possibility of exporting excess production is limited so it is probable that a number of fertilizer plants in western Canada will have to operate at reduced capacity. Despite the continued excellent work of Federal Grain Limited and United Grain Growers Limited and our fertilizer marketing staff, we anticipate reduced phosphate production and sales in 1969. Our excess nitrogen fertilizers can be sold in the export market but lower prices, particularly for ammonium sulphate, will greatly reduce our profit margins.

We expect the construction and development program at the Fox Mine will continue to make good progress and meet the anticipated start-up date of June, 1970.

The laterite demonstration plant will be operating on Philippine ore throughout most of the year. By the end of 1969 the process will have been thoroughly piloted, and we expect that soon thereafter plans for the financing and construction of the first commercial plant to use our laterite process will be finalized.

* * *

With the expanding activities of your Company there has been an ever-increasing burden placed on the Company's employees. The Directors wish to express their true appreciation for the loyal and efficient manner in which this increasing and demanding challenge has been met by all the Company's employees.

On behalf of the Board,

President.

Toronto, Ontario, February 28, 1969.

SHERRITT GORDO

Incorporated under

BALANCE SHEET

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ASSETS

CURRENT	1968	1967
Cash	\$ 3,172,301	\$ 100,481
Accounts receivable	0 500 000	0.000.000
Trade, including due from subsidiary company \$602,853	8,730,693	6,922,380
Other	696,418	1,054,946
Inventory of raw materials, materials in process and finished products — finished metals sold under contract valued at net realizable value, other materials and products valued at lower of average cost and net realizable value	10 054 707	0 772 055
Operating supplies, spare parts and other materials valued at	10,954,787	9,773,955
average cost	3,354,047	3,550,467
Insurance and other prepaid items	108,310	99,970
	27,016,556	21,502,199
NON-CURRENT		
Housing loans due from employees	660,787	624,758
Special refundable tax		137,251
^	660,787	762,009
FIXED (note 2)	00 000 140	01 400 055
Property, plant and equipment, at cost	99,300,143	91,423,055
Less accumulated depreciation	44,230,240 55,069,903	39,617,114 51,805,941
Unamortized mine development and metallurgical research	55,069,903	51,605,941
expenditures	11,283,988	10,584,292
	66,353,891	62,390,233
OTHER		
Investment in subsidiary and other companies at cost less		
amounts written off (note 3)	170,906	156,953
Patents at cost less amounts written off	659,921	731,068
	830,827	888,021
	\$94,862,061	\$85,542,462

INES LIMITED

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ECEMBER 31, 1968

res for 1967)

LIABILITIES

CURRENT Accounts payable and accrued	1968 \$ 9,403,936 1,478,153	1967 \$ 6,210,810 6,352
5½% Sinking Fund Bonds — payment due December 31, 1969 (3,525,000 U.S.) 4¾% Sinking Fund Bonds — due 1968		2,702,344 2,115,070 11,034,576
FIRST MORTGAGE BONDS (note 5)		
5½% Sinking Fund Bonds due December 31, 1972 (10,575,000 U.S.)	11,380,091	15,173,454
7¼ % Fox Mine Bonds due 1970 to 1975		15,173,454
SHAREHOLDERS' EQUITY		
CAPITAL		
Capital stock Authorized 12,000,000 shares par value \$1 per share		
Issued and fully paid 11,363,318 shares	11,363,318	11,363,318
Contributed surplus Net premium on sale of shares	$\frac{10,538,927}{21,902,245}$	
RETAINED EARNINGS	40,739,070 62,641,315	37,432,187 59,334,432
Approved by the Board: W. E. P. DeROCHE, Director. DAVID D. THOMAS, Director.		
	\$94,862,061	\$85,542,462

STATEMENT OF EARNINGS

for the year ended December 31, 1968 (with comparative figures for 1967)

	1968	1967
REVENUE FROM SALES	\$56,754,393	\$49,374,640
Cost of sales	40,171,261	35,291,035
Gross Profit from Sales	16,583,132	14,083,605
Research expense	578,223	694,949
Outside exploration expense	590,137	292,944
Administrative and selling expense	1,338,914	1,264,050
	2,507,274	2,251,943
Operating Profit	14,075,858	11,831,662
Patent licensing revenue	62,670	275,885
Share of profits less losses of subsidiary companies	100,012	9,784
Other non-operating revenue (charges) — net	26,334	(205,449)
	14,264,874	11,911,882
Interest expense less interest income of \$211,379	040 440	4 400 400
(1967 — \$213,528)	810,142	1,136,190
Earnings Before Taxes and Write-offs	13,454,732	10,775,692
Mining royalty and income taxes (note 4)	1,500,000	10,000
Earnings Before Write-offs	11,954,732	10,765,692
Depreciation and other write-offs including amortization	W 00W 010	E 0E0 E21
of intangibles of \$109,893 (1967 — \$107,622)	5,807,019	5,373,551
NET EARNINGS FOR THE YEAR	\$ 6,147,713	\$ 5,392,141
Expansion pap Cyring	E14	174
Earnings per Share	54¢	47¢

STATEMENT OF RETAINED EARNINGS

for the year ended December 31, 1968 (with comparative figures for 1967)

	1968	1967
BALANCE AT BEGINNING OF THE YEAR	\$37,432,187	\$34,312,710
Net earnings for the year	6,147,713	5,392,141
	43,579,900	39,704,851
Dividends paid — 25ϕ per share $(1967 - 20\phi)$	2,840,830	2,272,664
BALANCE AT END OF THE YEAR	\$40,739,070	\$37,432,187

The accompanying notes are an integral part of the financial statements.

STATEMENT OF SOURCE AND USE OF FUNDS

for the year ended December 31, 1968 (with comparative figures for 1967)

FUNDS WERE OBTAINED FROM	1968	1967
Operations for the year		
Net earnings Depreciation and other amounts deducted in arriving at net earnings but which did not involve an	\$ 6,147,713	\$ 5,39 2 ,141
outlay of funds	5,863,874	5,958,325
	12,011,587	11,350,466
Issue of 71/4 % Fox Mine Bonds due 1970 to 1975	6,175,800	
Capital research grants	21,532	230,000
Special refundable tax	137,251	109,017
Repayment of advances to subsidiary and other companies		43,966
	\$18,346,170	\$11,733,449
FUNDS WERE USED FOR		
Expenditures on capital and deferred assets		
Lynn Lake mine plant and development costs including power, townsite facilities and employee housing	\$ 586,971	\$ 783,092
Fox Mine plant and development costs	5,891,391	1,282,325
Fort Saskatchewan		
Metal and chemical plants	1,371,233	799,605
plant and patents	1,685,532	84,691
Fertilizer marketing warehouses and equipment	296,013	56,067
	9,831,140	3,005,780
Reduction in long-term indebtedness	3,759,566	6,244,138 2,272,664
Dividends paid	2,840,830 30,556	2,272,004
	16,462,092	11,522,582
Increase in working capital	•	210,867
	\$18,346,170	\$11,733,449
Working Capital		
Balance at beginning of the year	\$10,467,623	\$10,256,756
Increase during the year	1,884,078	210,867
Balance at end of the year	\$12,351,701	\$10,467,623

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

1. Conversion of Foreign Currencies. Transactions in foreign currencies have been converted into Canadian dollars at rates prevailing at the time of such transactions, except that current assets and current liabilities have been converted at the quoted rate of exchange at December 31, 1968.

2. Fixed Assets.

(A) Laurie River Power Plants. Under an Agreement entered into in 1967 with the Manitoba Hydro-Electric Board, for the future supply of electric power to the Company for its mining operations at or near Fox Lake and Lynn Lake, Manitoba, the Company will relinquish the ownership of its Laurie River power generation, transmission and distribution facilities not later than June 30, 1970. Thereafter Manitoba Hydro will be responsible for supplying power to the Company for a period of 30 years at a fixed price. During the first ten years of the Agreement the Company is committed to purchase a fixed minimum amount of power.

The Agreement requires the construction by the Company and by Manitoba Hydro of certain transmission lines by June 30, 1970 after which Manitoba Hydro will purchase the present Laurie River facilities for \$1 and the transmission line constructed by the Company at its cost. The undepreciated cost of the Laurie River facilities at June 30, 1970 will be approximately \$2,500,000. The Company will benefit by an adequate supply of electric power at reasonable cost for the Lynn Lake and Fox Mines and for any other development by the Company in the area.

(B) Fox MINE. The Company is obligated under the Fox Mine Bond financing agreement (see note 5) to develop the Fox Mine to production by the end of 1970 at an estimated cost of \$25,000,000 including working capital. An amount of \$8,716,291 was expended to December 31, 1968, of which \$4,137,980 is included under property, plant and equipment and \$4,578,311 under unamortized mine development expenditures.

- **3. Subsidiary Companies.** It is the policy of the Company not to consolidate the accounts of subsidiary companies because such companies are inactive or are of relative insignificance. All profits and losses of subsidiary companies have been reflected in the financial statements.
- 4. Income Taxes. As permitted under the Income Tax Act the Company has claimed for tax purposes to December 31, 1968 approximately \$35,500,000 more depreciation and other writeoffs than it has recorded in the accounts. This practice has resulted in lower income taxes in this and preceding years, but it should be understood that the sum available for future deductions for income tax purposes as depreciation and other write-offs is \$35,500,000 less than would appear from the balance sheet itself. The Company has not adopted the tax allocation method of recording deferred income taxes as recommended by the Canadian Institute of Chartered Accountants as it is considered that the taxes payable method is more appropriate to this Company. The application of the taxes payable method has theoretically resulted in income taxes in 1968 \$2,000,000 lower (1967 — \$2,400,000; cumulative to December 31, 1968 — \$13,000,000) than under the tax allocation method. If the Company had followed the tax allocation method in its accounts net earnings

would have been shown as 37¢ instead of 54¢ per share in 1968 and as 26¢ instead of 47¢ per share in 1967. It is impossible to determine how much, if any, of the \$2,000,000 which would have been reserved out of 1968 income by the tax allocation method might be required in the future because it is dependent upon the amount and timing of future profits and capital additions, and on the effective future tax rates of the Company which vary with changing proportions of mining and non-mining income.

5. First Mortgage Bonds. At December 31, 1968 details of outstanding First Mortgage Bonds were as follows:

1972 51/2 % Sinking Fund Bonds Sinking Fund payments Due December 31, 1969 \$ 3,525,000 U.S. Due December 31, 1970 to 1972 inclusive at \$3,525,000 U.S. each year 10,575,000 U.S. Total 1972 Bonds outstanding De71/4 % Fox Mine Bonds

The Loan Agreement provides for the discharge of the Bonds from Fox Mine production but otherwise, the Bonds are repayable by the Company at a minimum rate of 20% per year during the first five years of Fox Mine production.

Authorized for issue by December 31, 1970 \$16,380,000 U.S. Issued in 1968 and outstanding at

December 31, 1968

5,760,000 U.S.

First Mortgage Bonds outstanding December 31, 1968 \$19,860,000 U.S.

Under the indenture securing the 1972 Bonds the Company may not make a dividend distribution which would reduce working capital below \$9,000,000.

6. Remuneration of Directors and Officers. In 1968 the direct remuneration of directors and senior officers of the Company was \$287,850 (1967 — \$280,017).

AUDITORS' REPORT

cember 31, 1968

To the Shareholders of Sherritt Gordon Mines Limited:

14,100,000 U.S.

We have examined the balance sheet of Sherritt Gordon Mines Limited as at December 31, 1968 and the statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, except that as explained in note 4, the provision for income taxes has not been computed on the tax allocation basis, these financial statements present fairly the financial position of the Company as at December 31, 1968 and the results of its operations and the source and use of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario, February 18, 1969.

DELOITTE, PLENDER, HASKINS & SELLS Chartered Accountants.

TEN-YEAR RECORD 1959-1968

PRODUCTION

	Total	Toll Nickel	tion — Pounds ———		Fertilizer Production
Year	Nickel	Included	Copper	Cobalt	Tons
1959	25,097,375	284,645	10,341,365	314,343	117,878
1960	30,969,231	7,710,893	10,990,069	310,410	139,959
1961	26,480,386	4,474,811	11,251,881	191,043	137,761
1962	27,203,747	2,890,124	10,530,650	608,580	130,425
1963	23,930,561	2,959,379	11,977,903	607,511	166,828
1964	28,207,702	240,766	13,035,268	594,249	178,211
1965	25,790,422		12,391,743	530,137	214,281
1966	29,522,041	49,172	11,384,450	790,597	303,465
1967	25,079,525	2,855,353	10,716,158	764,073	331,209
1968	29,598,392	3,919,847	12,336,368	893,609	344,814

PROFITS AND DIVIDENDS

Year	Revenue from Sales	Operating Profit	Earnings	Earnings Per Share	Dividends	Dividends Per Share
1959	20,156,171	5,925,593	2,370,320	21¢		
1960	24,987,704	7,806,918	3,751,835	33¢	2,833,329	2 5¢
1961	23,947,113	8,025,942	3,906,730	34¢	3,399,995	30¢
1962	23,646,665	5,723,158	2,048,159	18¢	1,699,998	15¢
1963	30,382,084	7,908,324	2,710,539	24 ¢	2,266,664	2 0¢
1964	35,361,286	9,566,883	5,001,611	44¢	2,266,664	20⊄
1965	39,311,146	10,345,338	5,396,543	48¢	2,270,264	20⊄
1966	44,306,597	9,654,927	3,759,722	3 3¢	2,272,663	20¢
1967	49,374,640	11,831,662	5,392,141	47 ¢	2,272,664	20⊄
1968	56,754,393	14,075,858	6,147,713	54¢	2,840,830	25¢

ORE PRODUCTION AND RESERVES

	T 0	LYNN LAKE			FOX LAKE		
Year	Tons Ore Milled	Tons	Ore Reserve % Nickel	% Copper	Tons	Ore Reserve % Copper	% Zine
1959	988,541	14,158,000	0.96	0.54			
1960	1,151,419	14,300,000	0.92	0.53			
1961	1,219,157	14,000,000	0.92	0.54	4,600,000	1.78	2.82
1962	1,262,502	14,000,000	0.94	0.55	4,600,000	1.78	2.82
1963	1,346,192	11,916,000	0.96	0.58	4,600,000	1.78	2.82
1964	1,362,693	11,012,000	0.98	0.59	12,100,000	1.72	2.28
1965	1,363,583	12,600,000	0.84	0.49	12,269,000	1.74	2.35
1966	1,205,318	11,400,000	0.84	0.47	12,269,000	1.74	2.35
1967	1,071,490	11,900,000	0.83	0.46	12,269,000	1.74	2.35
1968	1,276,517	12,600,000	0.81	0.43	12,269,000	1.74	2.35

SHERRITT GORDON MINES LIMITED

MINING AND MILLING DIVISION

LYNN LAKE, MANITOBA

PETER A. CAIN, Vice-President, Mining - Manager

J. C. Folinsbee, Superintendent of Mines

J. A. MacLellan, Mill Superintendent L. H. Smith, Plant Superintendent

G. D. RUTTAN, Chief Geologist

H. N. Bowers, Administration Manager W. F. Clarke, Personnel Manager

METAL AND CHEMICAL DIVISION

FORT SASKATCHEWAN, ALBERTA

Wm. H. Young, Vice-President, Metals and Chemicals — Manager

H. M. BILKEY, Manager, Production
B. Benson, Manager, Chemicals
V. F. Elliott, Manager, Production Services
A. H. Lee, Manager, Rolling Mill and Mint

W. R. MIDDAGH, Manager, Metals Plant

R. G. WALFORD, Manager, Products Distribution

J. R. MUTER, Manager, Engineering and Administration Services

F. B. Arris, Manager, Administration
J. Ferguson, Manager, Employee and Industrial Relations
A. C. Oliver, Manager, Engineering

M. A. Schoening, Manager, Systems and Economics

T. W. BENZ, Manager, Projects

R. J. Loree, Manager, Western Mining Project

RESEARCH AND DEVELOPMENT DIVISION

FORT SASKATCHEWAN, ALBERTA

D. J. I. Evans, Director

H. VELTMAN, Assistant Director

P. T. O'KANE, Manager, Marinduque Laterite Project K. O. Cockburn, Manager, Other Laterite Projects W. Kunda, Manager, Chemical Metallurgical Research

S. Romanchuk, Manager, Development
R. W. Fraser, Acting Manager, Physical Metallurgical Research
P. Kawulka, Acting Manager, Technical Services
W. E. Janke, Agronomist

MARKETING DIVISION

25 KING STREET WEST, TORONTO 1, ONTARIO

ALAN E. GALLIE, Vice-President, Marketing

REX F. PEARCE, Manager, Metallurgical Sales

B. W. GILBERT, Manager, Domestic Metal Sales

1 THORNTON COURT, EDMONTON, ALBERTA

J. A. Fraser, Manager, Fertilizer Marketing

J. M. Nichols, Manager, Western Canadian Sales

SHERRITT FERTILIZERS INC.

2828 S.W. CORBETT AVENUE, PORTLAND, OREGON 97201

W. R. CHORLTON, General Manager

EXECUTIVE OFFICE

25 King Street West, Toronto 1, Ontario

